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TAGS: [PGOV](#) [KDEM](#) [PINR](#) [UK](#)
SUBJECT: (SBU) "LOANS FOR PEERAGES": MORE SMOKE THAN FIRE,
SO FAR

Classified By: PolCouns Charles Skinner; reason 1.4 (d)

¶1. (C) SUMMARY: The British media are making much of the revelation that Prime Minister Blair nominated some wealthy individuals for peerages after they had made unpublicized loans to his Labour party. Those loans were not public knowledge, because transparency rules (introduced by Blair) apply only to donations, not loans. All those involved deny that peerages or honors were promised in exchange for the loans, and there is no evidence that any laws were broken. The opposition can scarcely exploit this affair, because both the Tories and the Lib Dems also accepted loans; the Tories refuse to reveal the sources of their loans, while Labour and the Lib Dems have revealed theirs. Blair has moved swiftly to address the perception of sleaze by appointing a retired senior civil servant to review the whole issue of political-party funding and seek consensus among the parties for additional measures to restore public trust. At the behest of an MP, the Metropolitan Police are investigating whether the law was broken (the "smoking gun" would be any evidence that favors were promised in return for loans). Absent any such revelation, Blair should have little difficulty riding out the furor. Still, the perceived secrecy of the loans and the impression of too-clever-by-half politicians manipulating the system, feed public cynicism about British politics. Having promised to step down before the next general election, and being unpopular with much of the media and the left wing of his own party, Blair can expect that every fresh controversy will be portrayed by his opponents as the scandal that will force him out of office. END SUMMARY.

¶2. (SBU) "LOANS FOR PEERAGES": It has emerged that twelve wealthy individuals loaned a total of approximately 14 million British Pounds Sterling (BPS) to the Labour party in advance of the 2005 general election, and that Prime Minister Blair subsequently nominated four of them for peerages. The loans were not public knowledge, because transparency rules apply only to donations, not to loans made on commercial terms, as these were. What broke the story was that the Appointments Commission which vets nominations for peerages asked the four individuals if they had made donations to any political party, and they answered 'no.' Someone then leaked to the Commission that the men had made loans; when the Commission asked, all four confirmed this, explaining that they had not mentioned it because they had not been asked about loans, only donations. The Commission apparently considered this response unsatisfactory and blocked the nominations. Another one of the twelve benefactors resigned from the company he had founded, saying its reputation had been damaged by allegations (which he denied) that it had gained government contracts in return for his personal loan to Labour. At the behest of a Scottish nationalist MP, the Metropolitan Police are investigating whether the law (specifically, the 1925 Honours (Prevention of Abuses) Act)

has been broken. The "smoking gun" would be any evidence that favors were promised in return for loans).

13. (C) BAD IMPRESSION: Blair has come in for sharp criticism because he came to power campaigning against "Tory sleaze," pledging to be "whiter than white" in his method of governing. It is he who instituted the independent Appointments Commission and Electoral Commission, and made it mandatory to declare all donations over 5,000 BPS. His recourse to loans is widely seen as a cynical exploitation of a loophole in the safeguards he himself had devised. The impression of impropriety was reinforced when it emerged that the party treasurer had not known about the loans, and neither had the Deputy Prime Minister. Neither had Chancellor Gordon Brown, but Brown has taken pains to explain that as Chancellor, responsible for public expenditures, he always deliberately stayed out of party financial matters.

14. (C) REGAINING THE INITIATIVE: After the initial flurry, the whole affair has simmered down somewhat as it became clear that: (1) there was no evidence of illegality, (2) the opposition had also used undeclared loans, and (3) the Prime Minister was moving quickly to address concerns about party financing. Commentary has become more balanced, acknowledging that parties do need to be funded somehow, and that people should not be disparaged for making political contributions. Blair has tasked Sir Hayden Phillips, a retired senior civil servant, with examining the entire issue of party funding and seeking consensus among the parties on additional steps to restore public trust. Blair has also said he would consider withdrawing from the process of nominating people for honors. Other possible steps include partial state funding for parties, and a lower cap on a party's total campaign funding (currently 20 million BPS). Separately, the PM has also just named Sir John Bourn to advise Cabinet ministers on their duties under the

ministerial code of conduct, a step also related to a recent controversy involving Tessa Jowell, the Secretary of State for Culture, Media and Sport.

15. (C) Chancellor Brown has supported Blair's steps to address the problem, while distancing himself from the whole affair. On the other hand, inside sources tell us, Brown's staff is working feverishly behind the scenes to try to hasten Blair's resignation. Party treasurer Jack Dromey's scathing criticism of the Prime Minister for keeping him in the dark about the loans is widely seen as part of the Brownites' attempt to hasten their boss's anticipated promotion to Number 10 Downing Street. (While Dromey, a union official, holds the position of elected treasurer, it is officially the General Secretary, Peter Watt, who is the party treasurer, and Watt did know about the loans.)

16. (SBU) Labour's National Executive Committee (NEC) met March 21, then issued a statement that stressed it had held a "warm and friendly discussion on the whole issue of party funding" and fully supported Sir Hayden's review. The NEC said its officers would "take responsibility for overseeing all matters concerning donations and commercial loans." Blair's close friend Lord Levy, who arranged the loans, continues to be the main fundraiser for the Labour party. The press is reporting that Levy will have a televised question-and-answer session with the House of Commons' select committee on public administration May 2.

17. (SBU) OPPOSITION QUIET: The opposition is ill-placed to make hay out of this affair. Labour has revealed the names of those who gave it loans, and the amounts they lent; the Lib Dems have followed suit, but the Tories flatly refuse. All three main parties agree that in future, such loans should be subject to mandatory disclosure.

17. (SBU) LABOUR IN DEBT: We understand that Labour had tried to get a loan from its bank to help fund the 2005 general election campaign, but the party was so indebted that the bank refused. There has been speculation that the party might sell its headquarters in order to settle its debts.

Some of those who lent money say they are still willing to work with Labour to either turn their loans into donations or defer repayment.

18. (C) COMMENT: For now, there is no evidence that anyone broke any laws, and the main parties appear amenable to agreeing on new rules to try to regain public confidence. Barring more serious revelations, Blair should have little difficulty riding out this furor. Still, the perceived secrecy of the loans and the impression of too-clever-by-half politicians manipulating the system, feed public cynicism about British politics. Having promised to step down before the next general election, and being unpopular with much of the media and the left wing of his own party, Blair can expect that every fresh controversy will be portrayed by his opponents as the scandal that will force him out of office.

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